

Remarks of

**Frank Eichler
Executive Vice President, Law & Public Policy
General Counsel
MediaOne Group**

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Good morning. My name is Frank Eichler, Executive Vice President for Law and Public Policy and General Counsel for MediaOne Group. Let me echo Jim's remarks and thank the Commission and the Cable Bureau for convening this panel.

I'd like to share with you this morning why the merger of AT&T and MediaOne makes sense – for consumers, for local phone competition, and for the converging communications marketplace. By combining the skills, resources and footprint of AT&T and MediaOne, we will create an entity that will offer consumers true choice in their local phone service.

Let me start with a quick background on MediaOne.

In 1992, we saw competition and convergence emerging and concluded that the future of communications lay in transforming traditional one-way cable pipes into interactive

high-bandwidth platforms. Thus, we began investing in cable's broadband future through partnerships, acquisitions, system trades, and most significantly, in 1995, embarking on a massive \$7 billion dollar capital upgrade project to transform our one-way cable plant into two-way broadband networks.

Today, the communications revolution many of us in this room envisioned is underway. The '96 Telecom Act accelerated the convergence race to the consumer, and by doing so, created a competitive environment where size matters. The marketplace reality facing MediaOne today is that we are just too small to compete in a meaningful way, particularly with the incumbent local phone companies.

One need only look at some of the announcements over the last year to witness this phenomenon. SBC has merged with Ameritech and now controls 58 million access lines.

MCIWorldCom/Sprint are in the process of merging and will

have a competitive broadband play, including a national wireless footprint. And most recently, AOL and Time Warner announced the largest merger in U.S. history.

MediaOne simply cannot meet these competitive challenges on its own. Although we pass 8.5 million homes with a subscriber base of about 5 million customers, this represents just the ante in today's communications playing field. In *every single one* of our markets we find ourselves dwarfed by the competition -- the local phone companies. Our largest market, in New England, is a good example. We serve 1.3 million customers and are in head-to-head competition with Bell Atlantic, which has at least ten times as many residential lines in *that* market alone.

And the obstacles we face are further compounded by widespread consumer skepticism of a cable company's ability to provide telephone service.

MediaOne has launched facilities-based residential phone service in nine markets, with prices well below comparable services offered by the incumbent LECs. Yet our penetration rate is less than 3 percent -- or to put it another way --only 3 of every 100 potential customers have signed up for our local telephone service. This low penetration is driven primarily by consumer reluctance to purchase basic telephone service from a company without an established reputation for providing reliable, 'lifeline' communications services. Our experience has confirmed that even a well-established and respected cable company faces a major hurdle in generating consumer confidence as a provider of telephone service.

The enormous advantage enjoyed by the incumbent LECs over *all* cable companies, including MediaOne, is both stark and undeniable. Even *they* don't consider MediaOne a competitive

threat. In fact, BellSouth actually *raised* its prices when we launched local phone service in Atlanta.

Conversely, where AT&T has launched its broadband and local telephone service, SBC announced it would begin offering a competing video, voice and data product.

AT&T's established reputation and brand, with some of the highest consumer confidence ratings in the industry, will dramatically improve and accelerate overall penetration rates, in a way that MediaOne could *never* hope to achieve on its own. Moreover, AT&T already has the sophisticated engineering expertise, customer care infrastructure and communications experience needed to respond to large-scale consumer demands.

MediaOne brings to the merger state-of-the-art broadband networks. By year-end, 59 percent of our cable plant will be

telephone-ready and 75 percent will be HSD ready. We were among the first cable companies to acquire the skills and knowledge needed to deploy phone service over broadband. This experience will be invaluable to AT&T after the merger.

Combining AT&T's unmatched brand, customer care and engineering expertise with MediaOne's sophisticated cable infrastructure will jump start the market for competitive local phone service. A combined AT&T/MediaOne will be uniquely positioned to lead the charge and bring real choice to consumers, faster and more effectively than either AT&T or MediaOne could do alone.

Thank you for the opportunity to address you this morning and I would be happy to answer any questions.